

ELK RAPIDS HOUSING COMMISSION  
ELK RAPIDS, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name <i>EK Rapid Housing Commission</i>		County
Audit Date <i>9/30/04</i>		Opinion Date <i>1/4/05</i>		Date Accountant Report Submitted to State: <i>3/14/05</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- yes    no   1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- yes    no   2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- yes    no   3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- yes    no   4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- yes    no   5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- yes    no   6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- yes    no   7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- yes    no   8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- yes    no   9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette, CPA PC</i>			
Street Address <i>1107 E. 8th Street</i>		City <i>Pravara City</i>	State <i>MI</i>
Accountant Signature <i>Barry E. Gaudette CPA</i>		ZIP <i>49806</i>	

ELK RAPIDS HOUSING COMMISSION  
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INTRODUCTION

***Independent Auditor's Report***

Board of Commissioners  
Elk Rapids Housing Commission  
Elk Rapids, Michigan

We have audited the accompanying statements of net assets of the Elk Rapids Housing Commission, Michigan (a component unit of the Village of Elk Rapids) as of September 30, 2004, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Elk Rapids Housing Commission, Michigan, as of September 30, 2004, and the results of its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2005 on our consideration of Elk Rapids Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Elk Rapids Housing Commission  
Independent Auditor's Report  
Page Two

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Government Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of September 30, 2004.

*Bany E. Sandlett, CPA, PC*

January 4, 2005

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
September 30, 2004  
=====

The Elk Rapids Housing Commission, created in 1971, by the Village of Elk Rapids provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

**Financial Highlights**

The financial statements for Elk Rapids Housing Commission consists of two programs. The first is owned housing, consisting of 20 units of public housing and the second is the capital funding program. Elk Rapids Housing Commission had total revenues of \$117,369 that includes \$48,795 in rental payments and \$64,566 in federal assistance. Total revenues were \$39,266 more than the prior year because of an increase of \$39,732 in federal grants. Total operating expenses were \$111,024, that includes \$29,913 in administrative expenses, \$22,351 in utilities, \$20,911 in ordinary maintenance expenses, and \$29,009 in depreciation expense. Total operating expenses increased by \$8,256 over the prior year, of which maintenance expenses increased by \$4,660.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$471,928. The Housing Commission's total net assets increased by \$5,885 from the prior year, in part due to the increased federal grants received.

Total assets of the Housing Commission were \$483,923 including \$131,376 of current assets and \$352,547 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$11,995, which is less than the prior year by \$1,913.

The Housing Commission's financial condition has improved over the prior year.

ELK RAPIDS HOUSING COMMISSION  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**  
 (CONTINUED)

September 30, 2004

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**Overview of the Financial Statements**

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- \* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- \* Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- \* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

**Financial Analysis of the Housing Commission**

The following combined condensed balance sheets show a summary of changes for the years ended September 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Current assets	\$ 131,376	\$ 127,062	\$ 4,314
Property and equipment	<u>352,547</u>	<u>352,889</u>	<u>( 342)</u>
Total assets	<u>\$ 483,923</u>	<u>\$ 479,951</u>	<u>\$ 3,972</u>
Current liabilities	\$ 11,995	\$ 13,908	\$( 1,913)
Total liabilities	<u>11,995</u>	<u>13,908</u>	<u>( 1,913)</u>
Net assets:			
Invested in capital assets	352,547	301,844	50,703
Unrestricted net assets	<u>119,381</u>	<u>164,199</u>	<u>( 44,818)</u>
Total net assets	<u>471,928</u>	<u>466,043</u>	<u>5,885</u>
Total liabilities and net assets	<u>\$ 483,923</u>	<u>\$ 479,951</u>	<u>\$ 3,972</u>

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)  
September 30, 2004

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**Financial Analysis of the Housing Commission (continued)**

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended September 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
<b>Operating revenues:</b>			
Dwelling rent	\$ 48,795	\$ 48,359	\$ 436
Total operating revenues	<u>48,795</u>	<u>48,359</u>	<u>436</u>
<b>Operating expenses:</b>			
Administration	29,913	27,196	2,717
Tenant services	714	537	177
Utilities	22,351	22,673	( 322)
Ordinary maintenance and operation	20,911	16,251	4,660
General expenses	8,126	8,396	( 270)
Depreciation	<u>29,009</u>	<u>27,715</u>	<u>1,294</u>
Total operating expenses	<u>111,024</u>	<u>102,768</u>	<u>8,256</u>
Operating income(loss)	<u>( 62,229)</u>	<u>( 54,409)</u>	<u>( 7,820)</u>
<b>Non-operating revenue (expense):</b>			
Interest income	2,240	3,718	( 1,478)
Other income	1,443	1,192	251
Gain on sale of fixed assets	325		325
Operating grants	35,900	18,476	17,424
Capital grants	<u>28,666</u>	<u>6,358</u>	<u>22,308</u>
Total nonoperating revenue (expense)	<u>68,574</u>	<u>29,744</u>	<u>38,830</u>
<b>Net income(loss)</b>	6,345	( 24,665)	31,010
<b>Prior period adjustments</b>	<u>( 460)</u>	<u>45</u>	<u>( 505)</u>
<b>Change in Net Assets</b>	<u>\$ 5,885</u>	<u>\$ ( 24,620)</u>	<u>\$ 30,505</u>

FINANCIAL STATEMENTS

ELK RAPIDS HOUSING COMMISSION  
COMBINED STATEMENT OF NET ASSETS  
September 30, 2004

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**ASSETS**

Current Assets:

Cash	\$	27,761
Investments-unrestricted		100,475
Prepaid expenses		2,945
Inventories		195

Total Current Assets 131,376

Property, Plant, and Equipment:

Land		95,593
Buildings		592,058
Equipment		9,397
Construction in progress		37,030

Less: accumulated depreciation ( 381,531)

Net Property, Plant, and Equipment 352,547

Total Assets \$ 483,923

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
COMBINED STATEMENT OF NET ASSETS (CONTINUED)  
September 30, 2004  
=====

**LIABILITIES and NET ASSETS**

Current Liabilities:	
Accounts payable	\$ 7,522
Tenant security deposit liability	4,052
Accrued expenses	<u>421</u>
Total Current Liabilities	<u>11,995</u>
Total Liabilities	<u>11,995</u>
Net Assets:	
Invested in capital assets	352,547
Unrestricted net assets	<u>119,381</u>
Total Net Assets	<u>471,928</u>
Total Liabilities and Net Assets	<u>\$ 483,923</u>

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
**COMBINED STATEMENT OF ACTIVITIES**  
 Year Ended September 30, 2004  
 =====

<b>OPERATING REVENUES:</b>	
Dwelling rent	\$ 48,795
Total operating revenues	<u>48,795</u>
 <b>OPERATING EXPENSES:</b>	
Administration	29,913
Tenant services	714
Utilities	22,351
Ordinary maintenance and operation	20,911
General expenses	8,126
Depreciation	<u>29,009</u>
Total operating expenses	<u>111,024</u>
Operating income(loss)	<u>( 62,229)</u>
 <b>NONOPERATING REVENUES AND (EXPENSES):</b>	
Investment interest income	2,240
Other income	1,443
Gain on sale of fixed assets	325
Operating grants	35,900
Capital grants	<u>28,666</u>
Total nonoperating revenues(expenses)	<u>68,574</u>
Net income(loss)	6,345
Prior period adjustments, equity transfers and correction of errors	( 460)
Net assets, beginning	<u>466,043</u>
Net assets, ending	<u><u>\$ 471,928</u></u>

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
**COMBINED STATEMENT OF CASH FLOWS**  
 Year Ended September 30, 2004  
 =====

**Cash flows from operating activities:**

Cash received from dwelling rents	\$ 48,795
Cash payments to other suppliers of goods and services	( 50,995)
Cash payments to employees for services	<u>( 32,340)</u>
Net cash (used in) operating activities	<u>( 34,540)</u>

**Cash flows from noncapital financing activities:**

Tenant security deposits	( 220)
Due to other funds	( 506)
Operating grants	35,900
Other revenue	<u>1,443</u>
Net cash provided by noncapital financing activities	<u>36,617</u>

**Cash flows from capital and related financing activities:**

Gain on sale of fixed assets	325
Capital grants	28,666
Payments for capital acquisitions	<u>( 28,666)</u>
Net cash provided by capital and related financing activities	<u>325</u>

ELK RAPIDS HOUSING COMMISSION  
**COMBINED STATEMENT OF CASH FLOWS (CONTINUED)**  
Year Ended September 30, 2004  
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**Cash flows from investing activities:**

Certificate of deposits maturing	9,797
Receipts of interest and dividends	<u>2,253</u>

Net cash provided by investing activities	<u>12,050</u>
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Net increase(decrease) in cash	14,452
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Cash, beginning	<u>13,309</u>
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Cash, ending	<u>\$ 27,761</u>
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**Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:**

Cash	\$ 27,761
Restricted cash	<u>          </u>

Cash and cash equivalents per balance sheet	<u>\$ 27,761</u>
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**Schedule reconciling operating income to net cash flow from operating activities:**

Operating income(loss)	\$( 62,229)
------------------------	-------------

Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
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Depreciation	29,009
Adjustments	( 460)

Changes in assets and liabilities:	
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(Increase) decrease in assets:	
Prepaid expenses	16
Inventories	( 195)

Increase (decrease) in liabilities:	
Accounts payable	( 431)
Accrued wages/payroll taxes	<u>( 250)</u>

Net cash (used in) operating activities	<u>\$ ( 34,540)</u>
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See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2004

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Elk Rapids Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

**The Reporting Entity**

The Elk Rapids Housing Commission is a component unit of the Village of Elk Rapids. The Housing Commission is a Public Housing Agency created by the Village of Elk Rapids on March 31, 1971, consisting of a five member board appointed by the Village Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Elk Rapids Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3093, the Housing Commission constructed, maintains and operates 20 units of subsidized housing in the Village of Elk Rapids, Michigan.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Housing Commission. For the most part, the effect of the interfund activity has been removed from these statements. The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support.

The Housing Commission is considered a major individual Enterprise Fund.

ELK RAPIDS HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2004

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Village of Elk Rapids has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to

ELK RAPIDS HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2004  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Accounting (continued)**

the proprietary funds of its component units.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Insurance**

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

**Budgets and Budgetary Accounting**

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

**Receivables**

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

**Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

**Fixed Asset Capitalization**

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings		40 years
Furniture, equipment and machinery	5 -	10 years
Building improvements		10 years

**ELK RAPIDS HOUSING COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2004

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation leave, employees terminating employment for any reason are entitled to payment for all accrued unused vacation time, calculated on a pro rata basis.
- \* Sick leave, there is not a policy for sick leave.
- \* Personal leave, unpaid personal leaves of absence for a period of up to thirty (30) days may be requested. If more time is required for leave, approval is needed by the Commission.

ELK RAPIDS HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
September 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Vacation and Sick Leave (continued)**

Personal leave may be granted for justifiable reasons and granted only after all accrued unused vacation has been exhausted.

The amount of accumulated benefits at September 30, 2004, was not recorded as a liability in the applicable funds, but was an immaterial amount.

**Post Employment Benefits**

The Housing Commission does not provide any post employment benefits.

**Income Taxes**

As a component unit of a Michigan home rule village, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

**NOTE 2: CASH AND INVESTMENTS**

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

ELK RAPIDS HOUSING COMMISSION  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 September 30, 2004

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**NOTE 2: CASH AND INVESTMENTS (continued)**

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the September 30, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository</u>	<u>Depository Balances by Category</u>			<u>Total</u>	<u>Carrying Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Alden State Bank	\$ 16,369	\$	\$	\$ 16,369	\$ 16,369
Huntington					
National Bank	38,728			38,728	38,728
Fifth Third Bank	<u>74,533</u>			<u>74,533</u>	<u>73,054</u>
Total Deposits	<u>\$129,630</u>	<u>\$</u>	<u>\$</u>	<u>\$ 129,630</u>	128,151
Laundry equipment change fund					10
Change fund					25
Petty cash					<u>50</u>
					<u>\$ 128,236</u>
<u>Reconciliation to Cash on Balance Sheet</u>					
Cash					\$ 27,761
Investments					100,475
Restricted cash					<u>-</u>
Total					<u>\$ 128,236</u>

**NOTE 3: RECEIVABLES AND PAYABLES**

**Tenant Accounts Receivable**

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2004, there were no receivables.

ELK RAPIDS HOUSING COMMISSION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 September 30, 2004

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**NOTE 3: RECEIVABLES AND PAYABLES (Continued)**

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

There were no interfund receivables and payables as of September 30, 2004.

Individual fund operating transfers during the fiscal year are as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Low Rent Program	Capital Fund Program	<u>\$ 7,078</u>

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Balance</u> <u>09/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/04</u>
<b>Low Rent Program</b>				
Land	\$ 89,299	\$ 6,294	\$	\$ 95,593
Buildings	578,956	13,102		592,058
Furniture, equip. & machinery - administration	<u>10,647</u>		<u>1,250</u>	<u>9,397</u>
	678,902	<u>\$ 19,396</u>	<u>\$ 1,250</u>	697,048
Less accumulated depreciation	<u>( 355,736)</u>	<u>\$ ( 29,009)</u>	<u>\$ 3,214</u>	<u>( 381,531)</u>
Total	<u>\$ 323,166</u>			<u>\$ 315,517</u>
<b>Capital Fund Program</b>				
Construction in progress	\$ 30,860	\$ 6,170	\$	\$ 37,030
Less accumulated depreciation	<u>( 1,137)</u>		<u>1,137</u>	
Total	<u>\$ 29,723</u>	<u>\$ 6,170</u>	<u>\$ 1,137</u>	<u>\$ 37,030</u>

ELK RAPIDS HOUSING COMMISSION  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 September 30, 2004

=====

**NOTE 5: SCHEDULE OF INVESTMENT IN CAPITAL ASSETS**

Changes in the investment in capital assets (formerly contributed capital) in the enterprise fund type for the year ended September 30, 2004, consist of the following:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 301,844
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	13,673
Balance, ending	\$ 315,517

**NOTE 6: SEGMENT INFORMATION**

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2004, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>		
Dwelling rents	\$ 48,795	\$
Depreciation expense	( 29,009)	
Other operating expenses	( 77,860)	( 4,155)
Operating (loss)	( 58,074)	( 4,155)
Nonoperating revenues (expenses):		
Investment earnings	2,240	
Other income	1,443	
Gain on sale of fixed assets	325	
Operating grants	24,667	11,233
Capital grants		28,666
Operating transfers	7,078	( 7,078)
Change in net assets	( 22,321)	28,666
Prior period adjustments	( 460)	
Equity transfers	21,359	( 21,359)
Beginning net assets	436,320	29,723
Ending net assets	\$ 434,898	\$ 37,030

ELK RAPIDS HOUSING COMMISSION  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 September 30, 2004

=====

**NOTE 6: SEGMENT INFORMATION (Continued)**

**Condensed Statement of Cash Flows**

Net cash provided (used) by:		
Operating activities	\$( 30,385)	\$( 4,155)
Noncapital financing activities	32,462	4,155
Capital and related financing activities		
Investing activities	325	
Net increase (decrease)	<u>12,050</u>	<u>          </u>
Beginning cash and cash equivalents	14,452	<u>          </u>
Ending cash and cash equivalents	<u>13,309</u>	<u>          </u>
	<u>\$ 27,761</u>	<u>\$          </u>

**NOTE 7: OTHER INFORMATION**

**A. Pension Plan**

The Housing Commission does not provide a pension plan for eligible full-time employees.

**B. Current Vulnerability Due to Certain Concentrations**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

**C. Risk Management and Litigation**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

ELK RAPIDS HOUSING COMMISSION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 September 30, 2004  
 =====

NOTE 7: OTHER INFORMATION (CONTINUED)

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program:	
Prior period adjustment-void payment	\$ 30
Prior period adjustment-cost	( 490)
Equity transfer closed capital fund	<u>21,359</u>
	<u>\$ 20,899</u>
Capital Fund Program:	
Equity transfer closed capital fund	<u>\$( 21,359)</u>

E. Implementation of new accounting standard

As of and for the year ended September 30, 2004, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a governments' major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

SUPPLEMENTARY INFORMATION

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
 September 30, 2004

=====

	C-3093	Capital
	Low Rent	Fund
	Program	Program
	<u>14.850</u>	<u>14.872</u>

**ASSETS**

Current assets:		
Cash	\$ 27,761	\$
Investments-unrestricted	100,475	
Prepaid expenses	2,945	
Inventories	<u>195</u>	
Total current assets	<u>131,376</u>	
Property, plant, and equipment:		
Land	95,593	
Buildings	592,058	
Equipment	9,397	
Construction in progress	<u>697,048</u>	<u>37,030</u>
Less accumulated depreciation	<u>( 381,531)</u>	<u>37,030</u>
Net property, plant and equipment	<u>315,517</u>	<u>37,030</u>
Total Assets	<u>\$ 446,893</u>	<u>\$ 37,030</u>

Totals

\$ 27,761  
100,475  
2,945  
195

131,376

95,593  
592,058  
9,397  
37,030  
734,078  
( 381,531)

352,547

\$ 483,923

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS (CONTINUED)**  
 September 30, 2004

=====

	C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES and NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 7,522	\$
Tenant security deposit liability	4,052	
Accrued expenses	<u>421</u>	
Total current liabilities	<u>11,995</u>	
Total liabilities	<u>11,995</u>	
Net assets:		
Invested in capital assets	315,517	37,030
Unrestricted net assets	<u>119,381</u>	
Total net assets	<u>434,898</u>	<u>37,030</u>
Total Liabilities and Net Assets	<u>\$ 446,893</u>	<u>\$ 37,030</u>

Totals

\$ 7,522  
4,052  
421

11,995

11,995

352,547  
119,381

471,928

\$ 483,923

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF REVENUE, EXPENSES AND  
 CHANGES IN NET ASSETS**  
 Year Ended September 30, 2004

=====

	C-3093 Low Rent Program <u>14,850</u>	Capital Fund Program <u>14,872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ <u>48,795</u>	\$ _____
Total operating revenues	<u>48,795</u>	_____
<b>OPERATING EXPENSES:</b>		
Administration	28,017	1,896
Tenant services	714	
Utilities	22,351	
Ordinary maintenance and operation	18,652	2,259
General expenses	8,126	
Depreciation	<u>29,009</u>	_____
Total operating expenses	<u>106,869</u>	<u>4,155</u>
Operating income(loss)	<u>( 58,074)</u>	<u>( 4,155)</u>
<b>NONOPERATING REVENUES AND (EXPENSES):</b>		
Investment interest income	2,240	
Other income	1,443	
Gain on sale of fixed assets	325	
Operating grants	24,667	11,233
Capital grants		28,666
Operating transfers in (out)	<u>7,078</u>	<u>( 7,078)</u>
Total nonoperating revenues (expenses)	<u>35,753</u>	<u>32,821</u>
Net income(loss)	<u>( 22,321)</u>	28,666
Prior period adjustments, equity transfers and correction of errors	20,899	( 21,359)
Net assets, beginning	<u>436,320</u>	<u>29,723</u>
Net assets, ending	<u>\$ 434,898</u>	<u>\$ 37,030</u>

Totals

\$ 48,795

48,795

29,913

714

22,351

20,911

8,126

29,009

111,024

( 62,229 )

2,240

1,443

325

35,900

28,666

68,574

6,345

( 460 )

466,043

\$ 471,928

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
 Year Ended September 30, 2004

=====

	C-3093 Low Rent Program <u>14,850</u>	Capital Fund Program <u>14,872</u>
<b>Cash flows from operating activities:</b>		
Cash received from dwelling rents	\$ 48,795	\$
Cash payments to other suppliers of goods and services	( 46,840)	( 4,155)
Cash payments to employees for services	( 32,340)	
Cash payments for in lieu of taxes	<u>          </u>	<u>          </u>
Net cash (used in) operating activities	<u>( 30,385)</u>	<u>( 4,155)</u>
<b>Cash flows from noncapital financing activities:</b>		
Tenant security deposits	( 220)	
Due to other funds	( 506)	
Operating grants	24,667	11,233
Operating transfers in (out)	7,078	( 7,078)
Other revenue	<u>1,443</u>	<u>          </u>
Net cash provided by noncapital financing activities	<u>32,462</u>	<u>4,155</u>
<b>Cash flows from capital and related financing activities:</b>		
Gain on sale of fixed assets	325	
Capital grants		28,666
Payments for capital acquisitions	<u>          </u>	<u>( 28,666)</u>
Net cash provided by capital and related financing activities	<u>325</u>	<u>          </u>

Totals

\$ 48,795

( 50,995)

( 32,340)

---

( 34,540)

( 220)

( 506)

35,900

---

1,443

---

36,617

325

28,666

---

( 28,666)

---

325

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
 Year Ended September 30, 2004

=====

	C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>Cash flows from investing activities:</b>		
Certificate of deposits maturing	9,797	
Receipts of interest and dividends	<u>2,253</u>	
Net cash provided by investing activities	<u>12,050</u>	
Net increase(decrease) in cash	14,452	
Cash, beginning	<u>13,309</u>	
Cash, ending	<u>\$ 27,761</u>	<u>\$</u>

**Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:**

Cash	\$ 27,761	\$
Restricted cash	<u>          </u>	<u>          </u>
Cash and cash equivalents per balance sheet	<u>\$ 27,761</u>	<u>\$</u>

Totals

9,797

2,253

12,050

14,452

13,309

\$ 27,761

\$ 27,761

\$ 27,761



Totals

\$( 62,229)

29,009  
( 460)

16  
( 195)

( 431)  
( 250)

\$( 34,540)

ELK RAPIDS HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
Year Ended September 30, 2004  
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 24,667
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	<u>39,899</u>
	Total		<u>\$ 64,566</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ELK RAPIDS HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE**

Year Ended September 30, 2004

=====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 27,761	\$ _____
100	Total cash	<u>27,761</u>	_____
131	Investments-unrestricted	<u>100,475</u>	_____
	Other Current Assets:		
142	Prepaid expenses and other assets	2,945	
143	Inventories	<u>195</u>	_____
	Total other current assets	<u>3,140</u>	_____
150	Total current assets	<u>131,376</u>	_____
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	95,593	
162	Buildings	592,058	
164	Furniture, equipment & machinery-administration	9,397	
166	Accumulated depreciation	( 381,531)	
167	Construction in progress	_____	<u>37,030</u>
160	Total fixed assets, net of accumulated depreciation	<u>315,517</u>	<u>37,030</u>
180	Total noncurrent assets	<u>315,517</u>	<u>37,030</u>
190	Total Assets	<u>\$ 446,893</u>	<u>\$ 37,030</u>

Totals

\$ 27,761

27,761

100,475

2,945

195

3,140

131,376

95,593

592,058

9,397

( 381,531)

37,030

352,547

352,547

\$ 483,923

ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2004

=====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES AND EQUITY/NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 34	\$
321	Accrued wage/payroll taxes payable	421	
333	Accounts payable-other government	7,488	
341	Tenant security deposits	<u>4,052</u>	
310	Total current liabilities	<u>11,995</u>	
300	Total liabilities	<u>11,995</u>	
	Equity:		
508.1	Invested in capital assets	<u>315,517</u>	<u>37,030</u>
508	Total equity	315,517	37,030
	Net Assets:		
512.1	Unrestricted net assets	<u>119,381</u>	
513	Total net assets	<u>434,898</u>	<u>37,030</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 446,893</u>	<u>\$ 37,030</u>

Totals

\$ 34

421

7,488

4,052

11,995

11,995

352,547

352,547

119,381

471,928

\$ 483,923

ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2004

=====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 48,795	\$ _____
705	Total tenant revenue	48,795	
706	HUD PHA grants	24,667	11,233
706.1	Capital grants		28,666
711	Investment income-unrestricted	2,240	
715	Other revenue	1,443	
716	Gain/loss on sale of fixed assets	<u>325</u>	<u>          </u>
700	Total revenue	<u>77,470</u>	<u>39,899</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	18,442	
912	Auditing fees	1,500	
915	Employee benefit contributions-adm.	1,481	
916	Other operating-administrative	6,594	1,896
	Tenant Services:		
924	Tenant services-other	714	
	Utilities:		
931	Water	7,645	
932	Electricity	5,455	
933	Gas	9,251	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	11,271	
942	Ordinary maint & oper-mat'ls & other	1,565	2,259
943	Ordinary maint & oper-contract costs	4,920	
945	Employee benefit contributions- ordinary maintenance	896	
	General expenses:		
961	Insurance premiums	<u>8,126</u>	<u>          </u>
969	Total operating expenses	<u>77,860</u>	<u>4,155</u>
970	Excess operating revenue over operating expenses	<u>( 390)</u>	<u>35,744</u>

Totals

\$	<u>48,795</u>
	48,795
	35,900
	28,666
	2,240
	1,443
	<u>325</u>
	<u>117,369</u>

18,442
1,500
1,481
8,490

714

7,645
5,455
9,251

11,271
3,824
4,920

896

8,126

82,015

35,354

ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2004

=====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Expenses continued:</b>		
	Other expenses		
974	Depreciation expense	<u>29,009</u>	<u>          </u>
	Total other expenses	<u>29,009</u>	<u>          </u>
900	Total expenses	<u>106,869</u>	<u>4,155</u>
	Excess (deficiency) of operating revenue over (under) expenses before other financing sources (uses)	( 29,399)	35,744
	<b>Other Financing Sources (Uses):</b>		
1001	Operating transfers in (out)	<u>7,078</u>	<u>( 7,078)</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	( 22,321)	28,666
1104	Prior period adjustments, equity transfers and correction of errors	20,899	( 21,359)
1103	Beginning Net Assets	<u>436,320</u>	<u>29,723</u>
	Ending Net Assets	<u>\$ 434,898</u>	<u>\$ 37,030</u>

Totals

29,009

29,009

111,024

6,345

6,345

( 460)

466,043

\$ 471,928

**Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Housing Commissioners  
Elk Rapids Housing Commission  
Elk Rapids, Michigan

We have audited the financial statements of the Elk Rapids Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2004, and have issued our report thereon dated January 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control  
In Accordance with Government Auditing Standards  
Elk Rapids Housing Commission  
Page Two

***Internal Control Over Financial Reporting - Continued***

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated January 4, 2005.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Sara E. Handlett, CPA, PC*

January 4, 2005

ELK RAPIDS HOUSING COMMISSION  
INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2004

ELK RAPIDS HOUSING COMMISSION  
CONTENTS  
SEPTEMBER 30, 2004

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Management Advisory Comments	4
Adjusting Journal Entries	5

**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
Elk Rapids Housing Commission

We have audited the financial statements of the Elk Rapids Housing Commission ("Housing Commission") as of and for the year ended September 30, 2004, and have issued our report, thereon, dated January 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments (if any), in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

*Sam E. Sandlett, PA, PL*

January 4, 2005

**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners  
Elk Rapids Housing Commission

We have audited the financial statements of the Elk Rapids Housing Commission ("Housing Commission") as of and for the year ended September 30, 2004, and have issued our report, thereon, dated January 4, 2005. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, P.C.*

January 4, 2005

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
September 30, 2004

=====

**Certificate of Deposits**

The Housing Commission has several Certificate of Deposits, but there is not a policy in place that requires two signatures to start or cash in a Certificate of Deposit.

We recommend that the Housing Commission adopt a resolution that would require two signatures to open up a certificate of deposit or to cash in a certificate of deposit. This policy would provide another internal control for the safe guarding of assets. It should be noted that the Banks the Housing Commission is using as a matter of standard procedures may require two signatures.

**Invoices**

A copy of the check should be attached to the invoice for improved internal control over disbursements.

We recommend the invoices be stamped with a "approve or deny" stamp before the Board Commissioner signs the checks. Also, before the check is mailed to the payee, the invoice should be marked with a "paid and date paid" stamp. These markings will prevent an invoice from being paid twice and provide another control on approval.

The invoices should be available at Board meetings for Commissioners to examine if necessary.

**Tenant Files**

Currently the Housing Commission does not have in tenant files copies of birth certificates, social security cards, drivers license/or a picture ID, and a signed natural citizen form.

We recommend that the Housing Commission as a minimum have a copy of the social security card as required by CFR 5.216(a)(1) in each tenant file. We believe that the Housing Commission consider making copies of the birth certificates, and the drivers license/or a picture ID. The natural citizen form may be required by HUD, also.

ELK RAPIDS HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
September 30, 2004

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

Adjusting journal entries were not necessary